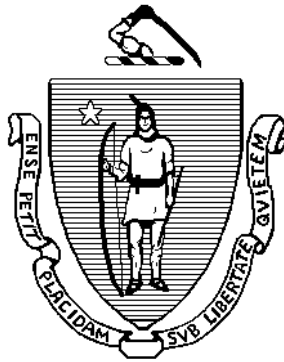
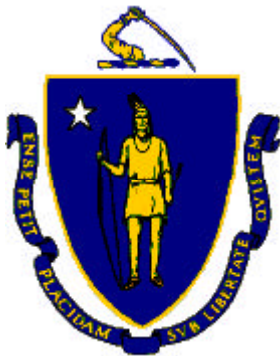


Introductory Section



Comptroller's Letter of Transmittal
Constitutional Officers
Organization Chart of State Government
Acknowledgments



*William Kilmartin, Comptroller
One Ashburton Place
Boston, MA 02108*

October 30, 1998

*To the Citizens of the Commonwealth of Massachusetts,
Governor Argeo Paul Cellucci, and Honorable Members of the General
Court*

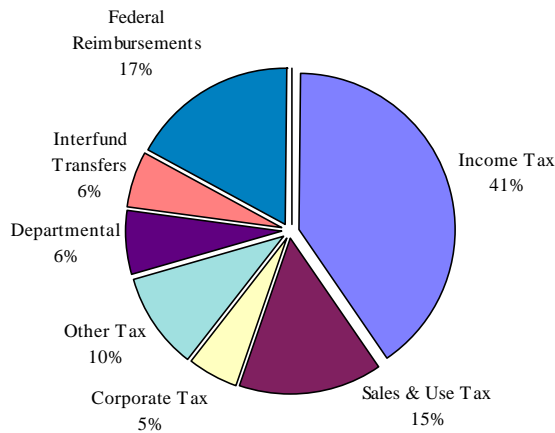
The financial condition of the Commonwealth for the fiscal year ended June 30, 1998 is excellent. For the eighth consecutive year, the Commonwealth has accomplished a positive balance in the budgeted funds. The balance in the budgeted funds of \$2.2 billion is more than 15% of annual tax revenues, and thus conforms to professional standards for a prudent year end balance. Also, per special statutory direction approximately \$300 million was transferred to capital outlay, instead of remaining in the budgetary surplus. Of the \$2.2 billion, \$1.2 billion is in the Stabilization Fund. This fund, sometimes called the "rainy day" fund, represents the Commonwealth's reserves for future purposes.

In accordance with Massachusetts General Laws, the Office of the Comptroller transmits the Statutory Basis Financial Report for the fiscal year ended June 30, 1998 (FY98). This report is audited by the firm of Deloitte & Touche LLP, Independent Certified Public Accountants, and is published on or before October 31st. The publication of this report represents the conclusion of financial activity and the final closing of the books on the statutory basis for FY98.

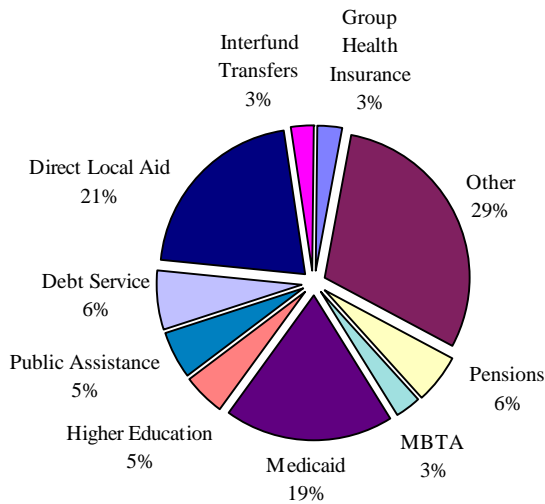
This report includes the budgeted funds, non-budgeted special revenue funds, capital project funds, fiduciary funds and the non-appropriated funds of higher education. The financial operations of these funds are accounted and reported in the Massachusetts Management Accounting and Reporting System (MMARS), the statewide accounting system operated by the Commonwealth. Detail information for each revenue and expenditure account is available from MMARS.

This report is intended to satisfy the requirements in state finance law to present fairly the results of FY98 activity in the Commonwealth's funds, to compute and certify the balance in the Stabilization Fund and Tax Reduction Fund, and to disclose and report certain aspects of financial performance as directed by statute. The statutory basis of accounting is defined in Massachusetts law. This basis of accounting is typically used to budget and control daily fiscal operations. The statutory basis of accounting is not in accordance with generally accepted accounting principles (GAAP) as defined for governments by the Government Accounting Standards Board. We will report the Commonwealth's financial position on a GAAP basis in early January, 1999 in our Comprehensive Annual Financial Report (CAFR).

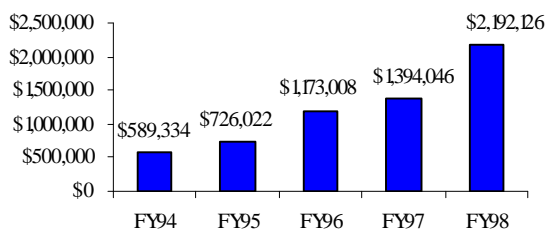
Budgeted Revenues And Other Sources



Budgeted Expenditures And Other Uses



Budgeted Funds - Fund Balance (Amounts in thousands)



Budgeted Funds

In FY98, sources of funds exceeded uses of funds for an operating gain of \$798 million. This follows an operating gain of \$221 million in FY97, \$447 million in FY96, \$137 million in FY95, \$26 million in FY94, \$13 million in FY93 and \$312 million in FY92. A net gain from operations, when reported for multiple consecutive years, is considered by professional standards to demonstrate a structural balance between inflows and outflows. The Commonwealth has accomplished such structural balance.

From a net budgeting perspective, overall revenues and other financing sources are up 8.9% from FY97 to FY98. When analyzed from a multi-year perspective, the proportion of each revenue source to the total did not materially change from FY97 to FY98. Budgeted expenditures and other financing uses are up 5.8% from FY97 to FY98.

The FY98 activity in the budgeted funds is summarized and compared to FY97 in the Budgeted Funds - Operations table. Financial statements for each of the 58 individual budgeted funds are included in the financial section of this report.

In conducting the budget process, the Commonwealth excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds. The table on page 3 isolates this interfund activity from the budgeted sources and uses to align more clearly forecasts prepared during the budget process to the detailed fund accounting of the Commonwealth's annual financial statements. For example, this table isolates the assessments on municipalities collected by the Commonwealth and paid to the MBTA and regional transit authorities.

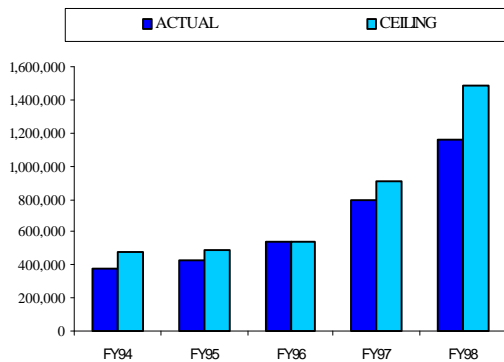
The graph of Budgeted Funds - Fund Balance shows the combined fund balance in the budgeted funds for the past five years. This "bottom line" perspective demonstrates the accumulation of resources attributable to balanced budgets over the multi-year period.

The FY98 ending balance of \$2.192 billion is composed of \$286.3 million reserved for continuing appropriations and debt service, \$1.159 billion reserved in the Stabilization Fund, \$367.6 million reserved for tax reductions, and \$378.5 million as undesignated surplus available for appropriation in FY99.

Budgeted Funds - Operations
(Amounts in thousands)

	1997	1998
Beginning fund balances:		
Reserved and designated.....	\$ 263,344	\$ 225,151
Tax Reduction Fund Current.....	150,000	91,764
Tax Reduction Fund Future.....	81,722	-
Stabilization Fund.....	543,303	799,300
Undesignated.....	134,639	277,831
Total.....	1,173,008	1,394,046
Revenues and other sources:		
Taxes.....	12,864,501	14,026,256
Federal reimbursements.....	3,019,692	3,361,181
Departmental and other revenues.....	1,267,882	1,286,452
Interfund transfers from non-budgeted funds and other uses.....	1,017,977	1,125,950
Budgeted revenues and other sources.....	18,170,052	19,799,839
Mass transit assessments.....	151,525	155,610
Intragovernmental Service Fund revenues.....	83,622	84,958
Interfund transfers among budgeted funds and other sources.....	818,167	1,364,217
Total revenues and other sources.....	19,223,366	21,404,624
Expenditures and other uses:		
Programs and services.....	15,218,752	16,238,763
Debt service.....	1,275,539	1,213,363
Pension.....	1,069,184	1,069,771
Interfund transfers to non-budgeted funds and other uses.....	385,539	479,862
Budgeted expenditures and other uses.....	17,949,014	19,001,759
Payments of mass transit assessments.....	151,525	155,610
Intragovernmental Service Fund expenditures.....	83,622	84,958
Interfund transfers among budgeted funds and other uses.....	818,167	1,364,217
Total expenditures and other uses.....	19,002,328	20,606,544
Excess of revenues and other sources over expenditures and uses.....	221,038	798,080
Ending fund balances:		
Reserved and designated.....	225,151	286,348
Tax Reduction - Current.....	91,764	367,663
Stabilization Fund.....	799,300	1,159,588
Undesignated.....	277,831	378,527
Total.....	\$ 1,394,046	\$ 2,192,126

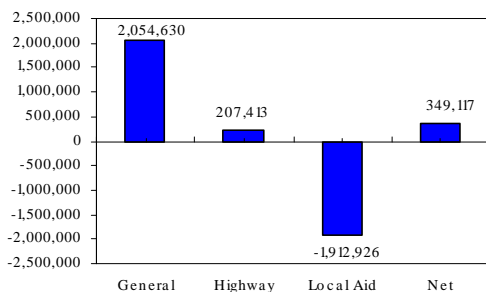
Stabilization Fund Balance
(Amounts in Thousands)



The balance in the Stabilization Fund is a good indicator of the positive financial condition of the Commonwealth. State finance law as amended during FY98, increased the maximum balance that may accumulate in the Stabilization Fund to an amount not to exceed 7.5% of budgeted revenues and other sources. State finance law then directs that any amount in excess of the cap be transferred to the Tax Reduction Fund. This "ceiling" for FY98 was \$1.484 billion, so the actual balance in the Stabilization Fund of \$1.160 billion was under the cap. The stabilization ceiling and fund balance of the Stabilization Fund over a multi-year period is presented in the graph Stabilization Fund Balance.

Despite the Commonwealth's positive financial condition, a few cautionary notes are merited. There are certain problems with the definitions in state finance law enacted in 1986, and continued with slight modification to the present. A balanced budget, the "Consolidated Net Surplus," is defined as the combined undesignated component of the General, Local Aid, and Highway Funds. According to this restricted definition, fiscal balance was achieved in FY98 in the amount of \$349.1 million. However, this definition excludes certain components of fund balance, such as reserves for continuing appropriations and the entire balances of other budgeted funds. This idiosyncratic definition has the potential to be misleading and confusing. The Commonwealth should adopt a more straightforward definition of fiscal balance.

"Consolidated Net Surplus"
Prior to Transfers
(Amounts in Thousands)



Also problematic is the formula for deposits to the Stabilization Fund. Under current law, the "Consolidated Net Surplus" in the General, Highway and Local Aid Funds is measured in comparison to 0.5% of state tax revenues. Any amount in excess of 0.5% of taxes is computed for transfer to Capital Project funds and for the transfer to the Stabilization Fund. For the Stabilization Fund transfer, 60% is taken from the General Fund and 40% from the Local Aid Fund. Other funds in surplus, such as the Highway Fund, do not contribute to the transfer. This engenders a counter intuitive situation whereby the Local Aid Fund, which is in deficit, contributes to the transfer, and becomes more deficient, while positive balances in the Highway Fund and other funds do not. State finance law should be amended to eliminate this convoluted bookkeeping and rationalize the contributions to the Stabilization Fund.

Further complicating this issue is the existence of a large number of “minor” budgeted funds. Over the past several years, dozens of new “minor” funds have been created by splitting off revenues and expenditures previously accounted for as part of a major fund, such as the General Fund. These funds are currently excluded from the definition of fiscal balance and are likewise excluded from the contributions to the Stabilization Fund.

The trend to fragment the budget into such special interest funds should be addressed with a plan to either consolidate to a more reasonable number of funds or to include these funds in the definition of fiscal balance.

A final cautionary note pertains to the disposition of the accumulated surplus. Maintaining a prudent portion of the surplus in the strategic reserve, called the Stabilization Fund, is paramount. The Legislature and Governor now face the challenge to frame fiscal policy for the remainder of this surplus. There are numerous choices, each of which has long term implications on how the Commonwealth maintains its positive financial position. These choices include one-time authorizations such as tax reduction and capital projects or continued annual appropriation for increased spending on programs.

Whatever choices are made, it is important to maintain the long term structural balance. Simply stated, accumulated balances should not be committed entirely to purposes with ongoing spending requirements. To say this another way, the initiation of new continuing programs or permanent tax cuts must be examined as to the risk of creating a structural imbalance in future years.

Non-Budgeted Funds

The Non-Budgeted Funds represent operations whereby the government has imposed its sovereign authority but has excluded these operations from the annual budget process. During FY98, the Commonwealth maintained 27 active non-budgeted funds, including the Lottery Funds, Federal Grants Fund, the Grant Anticipation Note Fund, the Sewer Rate Relief Fund, and the Uncompensated Care Fund. These funds are frequently referred to as special revenue or dedicated revenue funds. The financial concept is that specified revenue inflows will be matched to related expenditure outflows, so that each fund will balance. The funds are considered non-budgeted because the authorization for expenditures is in the General Law which created the fund, not the annual budget.

The FY98 activity in these Non-Budgeted Funds is summarized and compared to FY97 in the table of Non-Budgeted Funds - Operations. Individual financial statements are presented in the financial section of this report.

Non-Budgeted Funds - Operations

(Amounts in thousands)

	1997	1998
Beginning fund balance.....	\$ 178,108	\$ 155,878
Revenues and other sources:		
Taxes.....	9,918	11,631
Assessments.....	330,723	261,650
Federal grants and reimbursements.....	1,213,554	1,482,709
Departmental and miscellaneous.....	3,475,262	3,955,294
Transfers and other sources.....	87,500	1,003,098
Total revenues and sources.....	5,116,957	6,714,382
Expenditures and other uses:		
Programs and services.....	4,189,619	4,675,102
Debt service.....	2,747	1,227
Transfers and other uses.....	946,821	1,676,322
Total expenditures and uses.....	5,139,187	6,352,651
Excess of revenues and sources over expenditures and uses.....	(22,230)	361,731
Ending fund balance.....	\$ 155,878	\$ 517,609

While the Federal Grants Fund has a positive fund balance, the deficiency in cash is \$26.6 million. This situation is expected, since the Commonwealth performs draw downs from the federal government a few days after the cash disbursement, to assure an "interest neutral" condition on the timing of the federal-state cash exchange. These requirements were established by the Cash Management Improvement Act of 1990.

In the Lottery Funds, gross revenues continued to increase from FY97 to FY98. Net profits also increased, so that distributions to cities and towns for local aid increased by \$103.6 million.

The significant increase in fund balance in these funds can be attributed to the proceeds of Federal Grant Anticipation Notes (GANS). During FY98 the legislature authorized the issuance of up to \$1.5 billion in GANS. These GANS, with maturities of 7 to 17 years, finance the current cash flow needs of the Central Artery/Tunnel Project. These GANS will be redeemed with future reimbursements from the federal government. The Commonwealth issued the GANS as "Asset Backed Securities", secured by a pledge of future receipts from the Federal Highway Trust Fund. The GANS are not general obligations of the Commonwealth. The \$312 million balance in the fund represents proceeds held by the treasurer to be released in the coming months as expenditures are incurred.

The Sewer Rate Relief Fund was established with a transfer of \$30.0 million from the General Fund in FY94. This fund is administered by the Department of Revenue for the purpose of providing assistance in the mitigation of sewer rate increases. In each subsequent year, the Commonwealth has provided additional funds and the FY98 ending balance after expenditure and other financial operations is \$13.0 million.

The Uncompensated Care, Labor Shortage and Medical Security Funds were set up, in 1988, as part of the universal health care legislation. In the intervening time, several aspects and purposes to the funds have been modified in legislation. These funds have grown to an annual revenue volume in excess of \$1,237.7 million, with a combined fund balance of over \$172.5 million.

The graph Non-Budgeted Funds - Fund Balance shows the combined fund balance in the non-budgeted funds for the past five years. In each year the entire balance is designated for the specific purpose of the respective fund.

Certain funds have accumulated positive balances and do not report current year activity. Three of these dormant funds have been abolished, JFK Library and Park Fund as of June 30, 1998 and Freight Rail and Passenger Rail as of July 1, 1998.

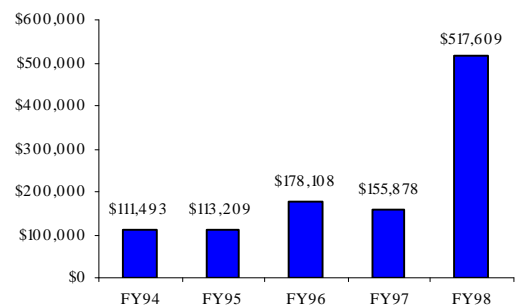
The Government Land Bank Fund has a chronic and structural fund deficit. This fund should be abolished and the deficit absorbed into the General Fund.

A periodic reexamination of all non-budgeted funds is sound financial practice.

Capital Projects Funds

The purpose of these funds is to construct or acquire capital assets for governmental use. The Governor may propose capital outlay budgets which, upon enactment by a two-thirds vote of the Legislature and approval by the Governor, become capital outlay acts. Numerous capital outlay acts may be combined for reporting in an individual Capital Projects Fund but each act is accounted for as a separate subfund, which records authorization for expenditures in itemized capital appropriation accounts and equivalent authorizations to issue bonds or notes in anticipation of federal reimbursements.

Non-Budgeted Funds - Fund Balance
(Amounts in thousands)



Certain funds or subfunds may also be authorized in law to receive other revenues including transfers of surplus from the Budgeted Funds. At the conclusion of FY98, legislation was enacted to transfer to the Capital Investment Trust Fund \$189.2 million from the budgetary surplus. This fund supports capital projects without the need to issue bonds. In addition, the amount of \$111.6 million was transferred from the budgeted funds as part of the surplus disposition calculation to provide financing to existing Capital Project Funds in lieu of bonds.

The FY98 financial activity for the capital projects funds is summarized and compared to FY97 in the table Capital Project Funds - Operations. Individual fund statements are presented in the financial section of this report, and footnotes contain additional information about the related debt.

Capital Projects Funds - Operations **(Amounts in thousands)**

	1997	1998
Beginning fund deficit.....	\$ (217,574)	\$ (131,777)
Revenues and other sources:		
Federal grants and reimbursements.....	1,035,630	785,241
Departmental and miscellaneous.....	2,089	113,347
General obligation financing.....	899,471	766,953
Special obligation financing.....	-	100,059
Proceeds of refunding bonds.....	722,621	861,793
Transfers from budgetary surplus.....	89,503	111,571
Transfer for Capital Projects Funds.....	229,800	189,235
Transfers and other sources.....	175,958	1,058,087
Total revenues and sources.....	3,155,072	3,986,286
Expenditures and other uses:		
Acquisition of assets.....	2,213,249	2,663,419
Payments to refunded bond escrow.....	722,621	861,793
Transfers and other uses.....	133,405	678,333
Total expenditures and uses.....	3,069,275	4,203,545
Excess (deficiency) of revenues and sources over expenditures and uses.....	85,797	(217,259)
Ending fund deficit.....	\$ (131,777)	\$ (349,036)

The graph Capital Projects Funds - Fund Deficit shows the combined fund deficit in the Capital Projects Funds for the past five years.

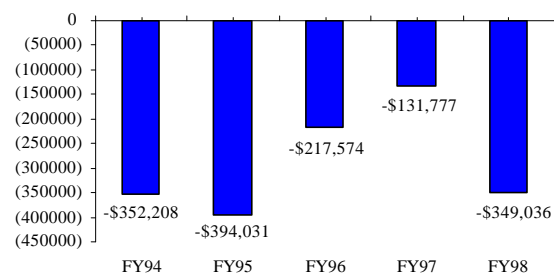
The financial concept is that each capital outlay authorization is balanced, creating authorization for inflows, (proceeds from sales of bonds and federal reimbursements or other revenues), and authorization for expenditure. However, imbalances due to timing differences develop when the outflow (expenditure) precedes the inflow (sale of bonds or receipt of reimbursement). Federal tax arbitrage rules, which discourage sale of bonds in anticipation of expenditures, contribute to such timing differences. As a result, the capital projects funds may report temporary fund deficits. This situation also creates a cash deficit in these funds.

In FY98, the Capital Expenditure Reserve Fund is presented as a capital project fund. Pursuant to statute and agreement with the Massachusetts Turnpike Authority (MTA), funding in the amount of \$100 million was provided in FY96 by the MTA relating to the Central Artery/Tunnel Project. Legislation passed in FY97 requires the Massachusetts Turnpike Authority to make payment of an additional \$600 million and the Massachusetts Port Authority to make payment of \$30.7 million in the next fiscal year. During FY98, the Commonwealth received \$100 million from Massachusetts Turnpike Authority and \$12.1 million from Massachusetts Port Authority toward this commitment. This funding is in addition to state and federal funding in the Capital Projects Funds for the project.

The Commonwealth has a practice of pooling cash from all governmental funds, so the short term cash deficits in the capital projects funds create a drain on the Commonwealth's overall cash flow. The Commonwealth should continue to analyze and balance the economic effects of interest income on the pooled cash to interest expense related to issuance of capital debt.

The five-year graph shows the effect of elapsed time between capital expenditures and the sale of related debt. In FY98, the Commonwealth could have issued additional, currently authorized bonds. Had such action been taken, fund deficits (and cash balances) would have improved accordingly and long term liabilities would have increased.

**Capital Projects Funds -
Fund Deficit
(Amounts in thousands)**



**Future Payments by the Authorities
(Amounts in thousands)**

Fiscal Year	MTA	MassPort
1999	\$600,000	\$30,700
2000	-	52,200
2001	-	-
2002	-	-
2003	400,000 *	105,000
2004	-	50,000
2005	-	50,000
Total	<u>\$1,000,000</u>	<u>\$287,900</u>

* Represents contingent amount subject to the certain conditions

The Administration has implemented a coordinated fiscal strategy for the management of the Capital Projects Funds. Aspects of this strategy include a five-year capital budget linked to debt management and cash management. The focus of this strategy is to manage capital spending and thus outstanding debt to levels the Administration considers appropriate for the Commonwealth. An important part of the strategy is to contain capital spending within an annual administrative cap. As additional capital outlays have been enacted and significant projects such as the Central Artery/Tunnel Project have been authorized, the challenge to restrain spending to such limits is increasing. Strategies to manage this situation, such as additional financing for capital projects exemplified in the Massachusetts Turnpike Authority's and MassPort's participation in the Capital Expenditure Reserve Fund and the new Capital Investment Trust Fund previously described, should be continued.

Certain funds have not reported financial activity for the past two fiscal years, and serious consideration should be given to abolishing these funds. One inactive fund is the Lockup Facilities Improvements.

Fiduciary Funds (Excluding Agency Funds)

The fiduciary funds record the Commonwealth's responsibility for assets it controls on behalf of other parties. Examples of such funds are the Unemployment Compensation and Pension Trust Funds. The following table, which excludes assets held on a purely custodial capacity in agency funds, summarizes FY98 activity of the fiduciary funds. As evidenced, the Commonwealth acts as the fiduciary for a significant volume of financial activity.

Fiduciary Fund - Operations (Amounts in thousands)

	1997	1998
Beginning fund balance.....	\$ 16,815,371	\$ 20,888,042
Revenues and other sources:		
Taxes.....	1,174,332	1,092,698
Federal reimbursements.....	29,701	28,930
Departmental and other revenues.....	680,748	1,773,290
Interfund transfers and other sources.....	908,092	81,875
Investment earnings.....	3,372,852	3,435,381
Total revenues and sources.....	6,165,725	6,412,174
Expenditures and other uses:		
Expenditures.....	2,023,789	2,094,295
Interfund transfers.....	69,265	82,705
Total expenditures and uses.....	2,093,054	2,177,000
Excess of revenues and sources over expenditures and uses.....	4,072,671	4,235,174
Ending fund balance.....	\$ 20,888,042	\$ 25,123,216

Over 92% of this fiduciary fund activity is related to the Commonwealth's pension fund. Detailed fund statements for the Commonwealth's pension fund can be seen on page 310.

On October 26, 1998 the Commonwealth updated its pension valuation with material changes. A discussion of the Commonwealth's progress toward funding its pension liability is included in footnote 10.

Non-Appropriated Funds of Higher Education

The Statutory Basis Financial Report includes the financial operations of the non-appropriated funds of the 25 Institutions of Higher Education in the Statistical Section of the report. Over the past few years, significant efforts have been taken by the Comptroller's Office and most institutions to improve the accuracy and timeliness of this segment of the financial report.

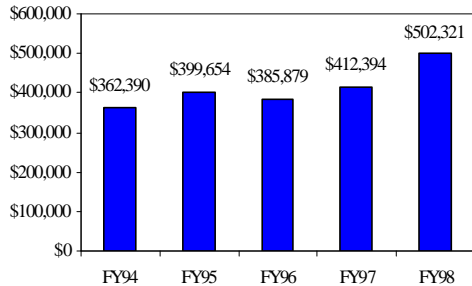
Each institution of higher education is authorized and directed in its enabling statute to collect, retain, and expend certain fees, rents, sales, donations, federal financial participation and other types of income. These financial resources are integral parts of the total financial activity of each campus, and represent resources in addition to amounts made available from appropriations.

Non-Appropriated Funds Of Higher Education - Operations (Amounts in thousands)

	1997	1998
Beginning fund balance.....	\$ 385,879	\$ 412,394
Revenues and other sources:		
Federal Grants and reimbursements.....	204,615	218,825
Departmental and miscellaneous.....	1,155,355	1,044,477
Transfers and other sources.....	160,134	258,570
Total revenues and sources.....	1,520,104	1,521,872
Expenditures and other uses:		
Programs and services.....	1,260,017	1,174,447
Transfers and other uses.....	233,572	257,498
Total expenditures and uses.....	1,493,589	1,431,945
Excess (deficiency) of revenues and sources over expenditures and uses.....	26,515	89,927
Ending fund balance.....	\$ 412,394	\$ 502,321

The FY98 financial activity for the non-appropriated funds of higher education is summarized and compared to FY97 in the table of Non-Appropriated Funds of Higher Education - Operations. Individual campus statements are presented in the statistical section of this report.

*Non-Appropriated Funds of Higher Education - Fund Balance
(Amounts in Thousands)*



The graph Non-Appropriated Funds of Higher Education - Fund Balance shows the combined fund balance for the non-appropriated funds of higher education for the past five years.

The combined balance represents a \$400 million portion for the University of Massachusetts, \$50 million for the State College system, and \$52 million for the Community College system. These balances are designated for specific purposes, such as restrictions on endowments or other specialized purposes specified by the funding contributions.

Conclusions And Recommendations

As evidenced in this Statutory Basis Financial Report, the Commonwealth's financial condition continued to be excellent in FY98. Building upon this foundation, a detailed review of these financial statements suggests, in my opinion, the need for consideration of the following recommendations to further improve and strengthen state finance law and fiscal practice.

1. The Commonwealth should redefine the concept of consolidated net surplus and change the computation for deposits to the Stabilization Fund. The existence of numerous budgeted funds tends to fragment the budget process, and introduces unwarranted complexities into the policy debate on fiscal balance.
2. The Commonwealth should modify state finance law to budget consistently with GAAP for governments. Over the past several years many incremental changes have occurred, so that statutory practice now resembles GAAP more closely. However, a few significant differences remain, and additional modifications to state finance law are warranted.
3. The policy and fiscal strategy to accomplish acceptable cash balances in the Capital Projects Funds, and to manage spending to the administratively capped debt limit, should continue. The Commonwealth has committed to an extensive capital projects agenda, and great discipline will be needed to assure spending

on these projects is matched with financing from bonds, federal reimbursement, transfer of budgetary surplus and financial participation from component units. Assuring proper balance between outflows and inflows, and limiting the segment funded by bonds to the administratively imposed limit, will be a major challenge.

4. The rationale for the continued existence of some of the non-budgeted funds should be examined, and certain funds should be modified to an “on-budget” status. Specifically, the Government Land Bank Fund with a deficit should be absorbed into the General Fund.
5. The Commonwealth recently modified state finance law and fiscal practice to elevate attention to the revenue side of state finance. For example, a statewide revenue optimization campaign collected \$47.1 million in FY96 and \$41.3 million in FY97 and \$37.4 million in FY98. This increased emphasis on both tax and non-tax revenue should continue.
6. The Commonwealth must increase its investment in information technology as a source of solutions to its business problems. Significant opportunities exist to improve the productivity of the administration of government, and an increased budget for technology projects will yield a substantial and favorable return on investment.
7. The Commonwealth must continue its effort to remediate the Year 2000 problem in its mechanical and data processing systems. The “year 2000 problem” is the result of shortcomings in many electronic data processing systems and other equipment that make operations beyond the year 1999 troublesome. For many years, computer programmers eliminated the first two digits from the year when writing programs. Accordingly, many programs, if not corrected, will not be able to distinguish between the year 2000 and the year 1900. These problems have the potential for causing a disruption of governmental services.

In June 1997, the Executive Office for Administration and Finance established a Year 2000 Program Management Office within its Information Technology Division. The purpose of this office is to ensure accurate monitoring of the Commonwealth’s progress in achieving “year 2000 compliance.” The program office has asked agencies to identify “mission critical” and “essential” systems. Mission critical systems are those which directly affect the health, safety or livelihood of citizens, which directly affect state revenues or whose loss would severely

jeopardize agency delivery of services. Essential systems' loss would cause disruption of some agency services but would not prevent the agency from delivering primary services. The program office has identified 261 mission critical and 192 essential systems. The Commonwealth currently expects that all mission critical systems will be Y2K compliant by December 31, 1999.

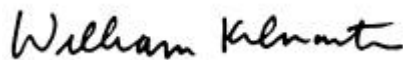
In addition, the Office of the State Auditor has conducted extensive examinations of Commonwealth systems for "Y2K" compliance.

Those seeking more detailed information on the Commonwealth Y2K efforts should visit the Information Technology Division Y2K web page: www.state.ma.us/Y2K or the Office of the State Auditor's web page: www.state.ma.us/SAO.

In conclusion, I express my thanks and appreciation to the many dedicated people in the departments of state government for their cooperation and assistance to make FY98 a successful year. I am grateful to Governor Cellucci and other elected officials and persons in the Executive and Legislative branches for supporting the work of this Office. We will continue to put forward our best efforts so that your support is well founded.

We are pleased to welcome Mr. Frederick A. Laskey as Secretary for Administration and Finance. Mr. Charles D. Baker recently concluded his service as Secretary. His leadership in fiscal policy was directly related to the excellent financial condition communicated in this report. Mr. Baker's support for other initiatives, such as procurement reform and aggressive exploitation of information technology, has resulted in improvements to state administrative processes that have enduring value. Simply stated, Mr. Baker stands out as a role model for excellence in public service and has earned the highest respect from his colleagues in the Office of the Comptroller and throughout state government. We are pleased to dedicate this report in Charlie's honor.

Respectfully transmitted,

A handwritten signature in black ink, reading "William Kilmartin". The signature is written in a cursive, flowing style.

William Kilmartin
Comptroller

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Director Resource Management

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Special Projects

CONSTITUTIONAL OFFICERS

Argeo Paul Cellucci
Governor

William F. Galvin
Secretary of State

L. Scott Harshbarger
Attorney General

Joseph D. Malone
Treasurer and Receiver-General

A. Joseph DeNucci
Auditor

LEGISLATIVE OFFICERS

Thomas F. Birmingham
President of the Senate

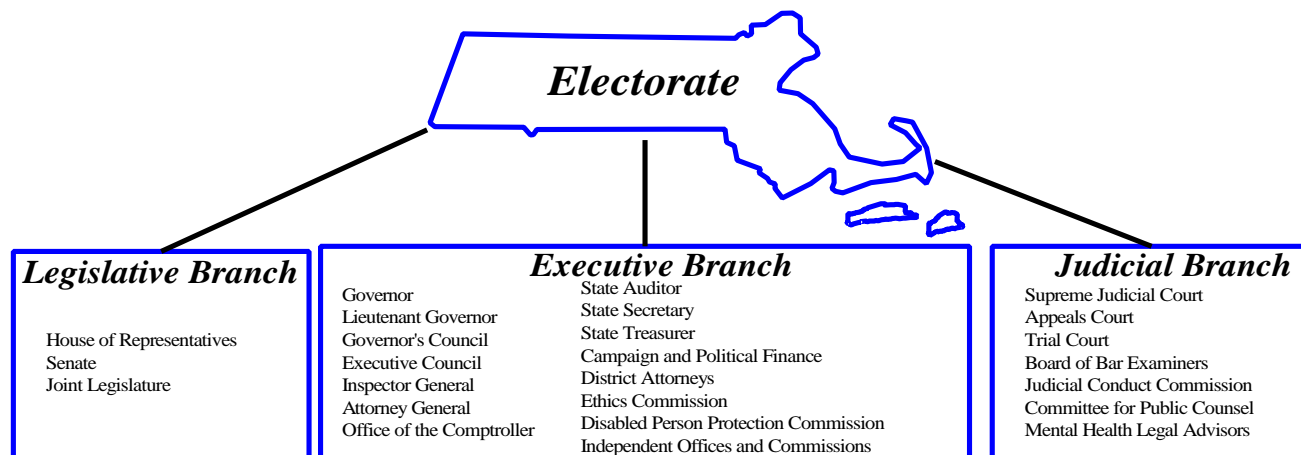
Thomas M. Finneran
Speaker of the House

JUDICIAL OFFICERS

Herbert P. Wilkins
Chief Justice, Supreme Judicial Court

Joseph P. Warner
Chief Justice, Appeals Court

Barbara A. Dortch-Okara
Chief Justice for Administration and Management, Trial Court



State Agencies

Administration and Finance

Executive Office Secretary of Administration and Finance
 Developmental Disabilities
 Appellate Tax Board
 Fiscal Affairs Division
 Operational Services Division
 Civil Service Commission
 Department of Revenue
 Department of Veteran Services
 Division of Administrative Law Appeals
 Division of Asset Management
 Group Insurance Commission
 Commission Against Discrimination
 Teachers' Retirement Board
 Public Employee Retirement
 Administration Commission
 Human Resource Division
 Information Technology Division
 Massachusetts Office on Disability
 Bureau of State Buildings
 George Fingold Library

Public Safety

Executive Office of Public Safety
 Architectural Access Board
 Committee on Criminal Justice
 Criminal History Systems Board
 Criminal Justice Training Council
 Department of Correction
 Department of Public Safety
 Department of Police
 Governor's Highway Safety Bureau
 Massachusetts Emergency Management Agency
 Merit Rating Board
 Military Division
 Chief Medical Examiner
 Parole Board
 Registry of Motor Vehicles
 Board of Building Regulations
 Department of Fire Services

Economic Development

Department of Economic Development
 Division of Housing & Community Development

Education

Department of Education
 Higher Education
 University System
 State and Community Colleges

Elder Affairs

Executive Office of Elder Affairs

Environmental Affairs

Executive Office of Environmental Affairs
 Department of Food and Agriculture
 Department of Environmental Management
 Department of Environmental Protection
 Fisheries and Wildlife Environmental Law Enforcement
 Metropolitan District Commission
 State Reclamation Board
 Low Level Radioactive Waste

Transportation and Construction

Executive Office of Transportation and Construction
 Massachusetts Aeronautics Commission
 Massachusetts Highway Department

Health and Human Services

Executive Office of Health and Human Services
 Department of Mental Health
 Department of Mental Retardation
 Department of Public Health
 Department of Social Services
 Department of Transitional Assistance
 Department of Youth Services
 Division of Medical Assistance
 Massachusetts Commission for the Blind
 Massachusetts Commission for the Deaf and Hard of Hearing
 Massachusetts Rehabilitation Commission
 Office for Child Care Services
 Office for Refugees and Immigrants
 Soldier's Home Chelsea, Holyoke
 Division of Health Care Finance & Policy

Labor

Department of Labor & Work Force Development
 Conciliation and Arbitration
 Division of Industrial Accidents
 Joint Labor Management Commission
 Labor Relations Commission
 Division of Employment and Training

Consumer Affairs

Office of Consumer Affairs & Business Regulations
 Board of Medicine
 Department of Telecommunications and Energy
 Division of Banks
 Division of Insurance
 Division of Registration
 Division of Standards
 State Racing Commission
 Alcoholic Beverages Control Commission
 Energy Facilities Setting Council
 Division of Energy Resources



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